



HM TREASURY

THE ECONOMY:
SUPPLEMENTARY MATERIAL
TO THE
PRE-BUDGET REPORT

8 November 2000

THE ECONOMY

Introduction

The Pre-Budget Report, published by HM Treasury on 8 November 2000, includes a discussion of economic developments and prospects. This document provides additional information to that contained in the Pre-Budget Report (Annex A), in the form of detailed charts and tables. The charts and tables are consistent with national accounts to the second quarter of 2000 released by the Office for National Statistics on the 27 September, and the preliminary GDP estimate for the third quarter, released on 20 October.

Forecast ranges

As in previous Budget and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative assumptions about the supply-side performance of the UK economy.

The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, based on an assumption of 2½ per cent a year for the trend rate of output growth from the start of 2001. This neutral assumption for trend growth is set out in Table A2 of the November 2000 Pre-Budget Report, and is discussed in the accompanying text. It assumes only a very modest increase in the employment rate, and does not bank on any improvement in underlying productivity performance compared to the 1990s.

The figures at the low end of the range are consistent with a deliberately cautious assumption of 2¼ per cent a year trend growth. This does not assume any increase in the employment rate. As before, projections for the public finances (set out in Annex B of the Pre-Budget Report) are based on the low end of the ranges. The upper end of the forecast ranges is symmetrical, illustrating the clear potential for stronger growth based in part on Government policies to raise productivity growth and to increase the labour supply.

The degree of spare capacity

Chart 1a: CBI capacity utilisation in manufacturing

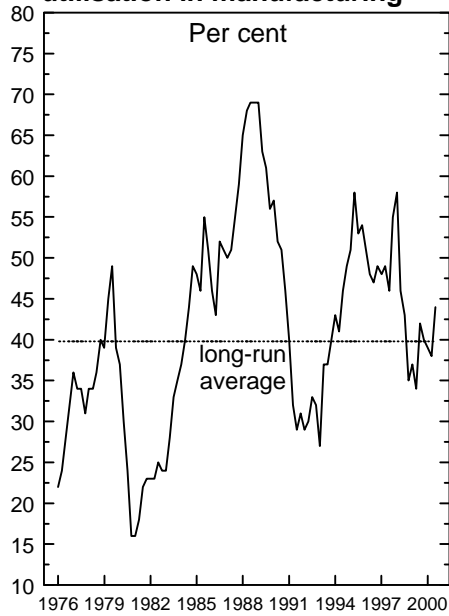


Chart 1b: BCC survey of capacity utilisation

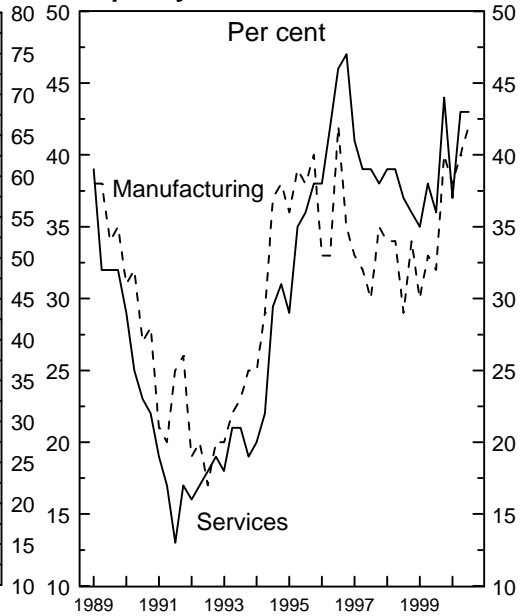


Chart 2a: CBI survey of skilled labour shortages

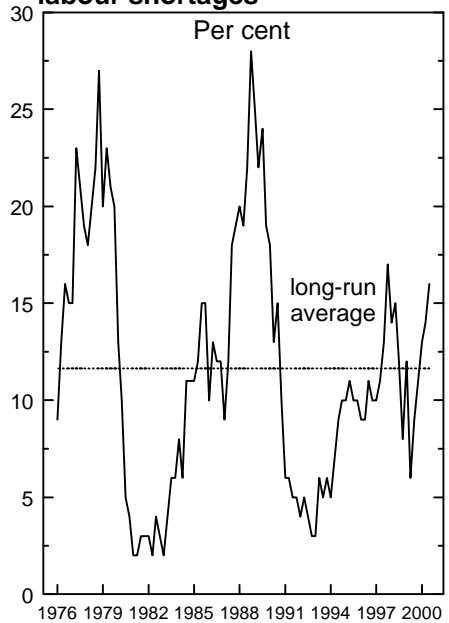
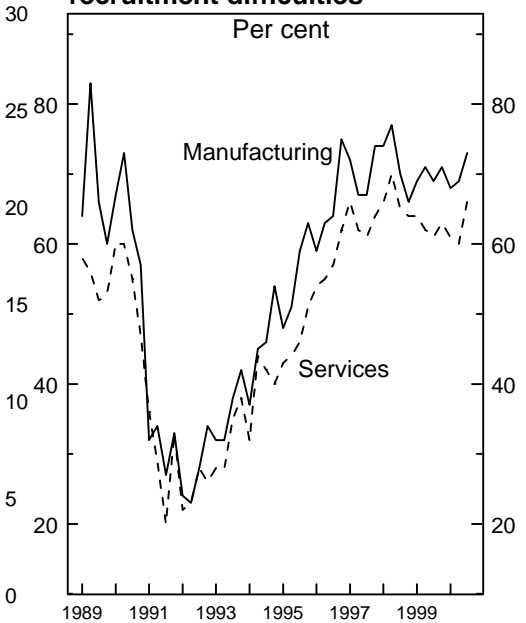
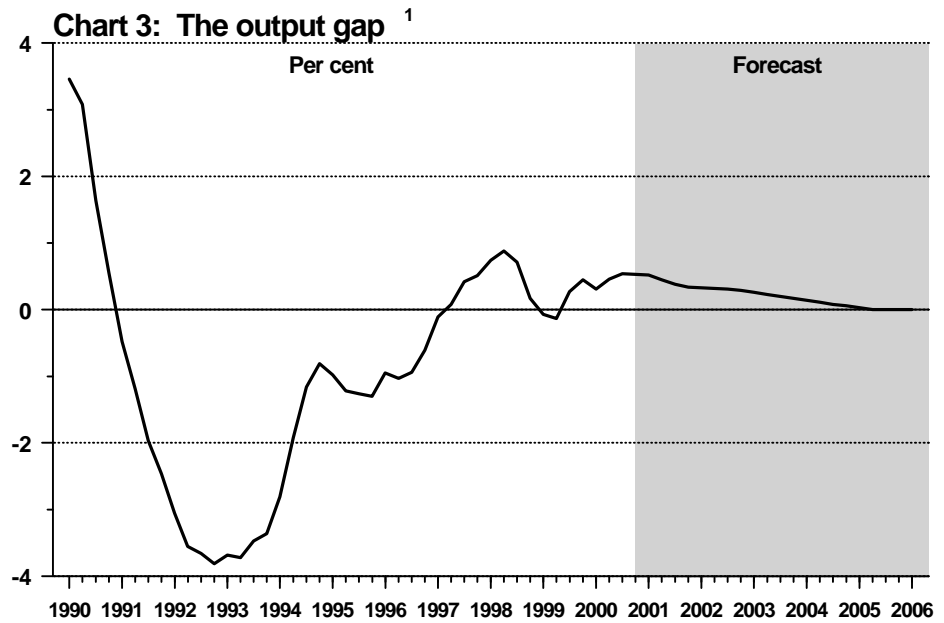


Chart 2b: BCC survey of recruitment difficulties





¹Actual output less trend output as a percent of trend output (non-oil basis).

GDP

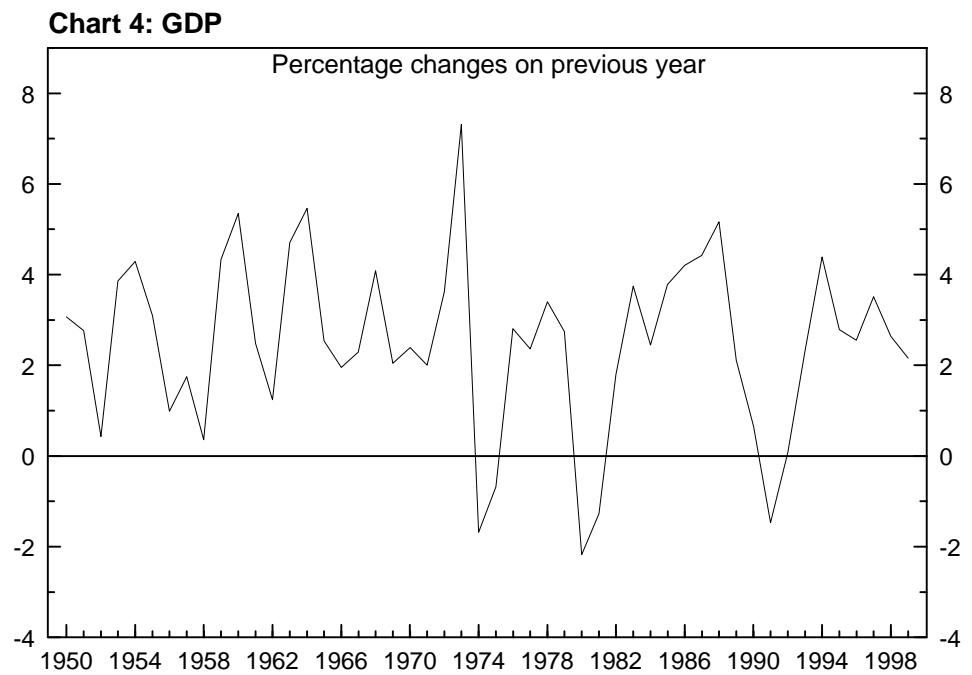


Chart 5: GDP forecast ¹

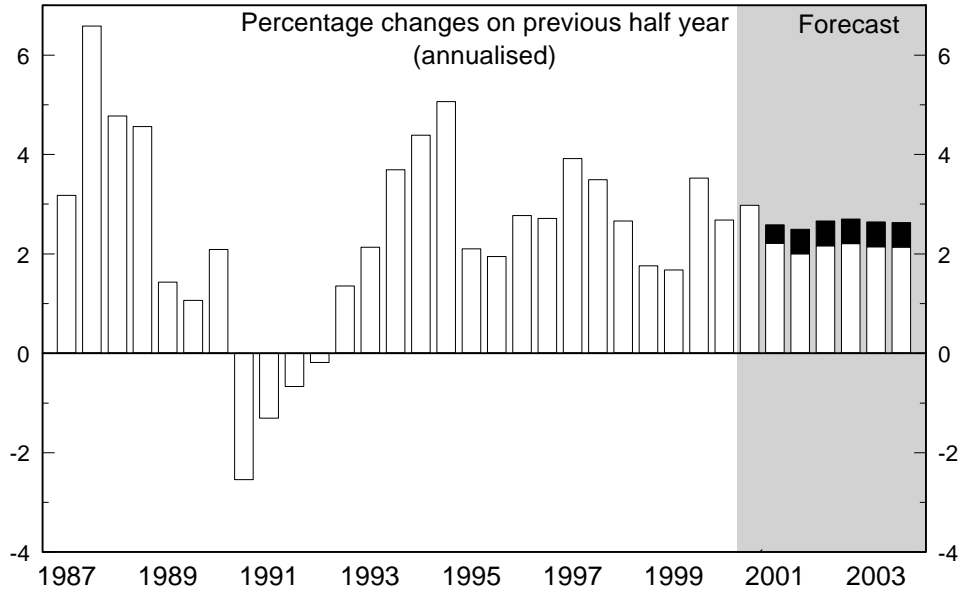


Table 1: Contributions to GDP¹ growth²

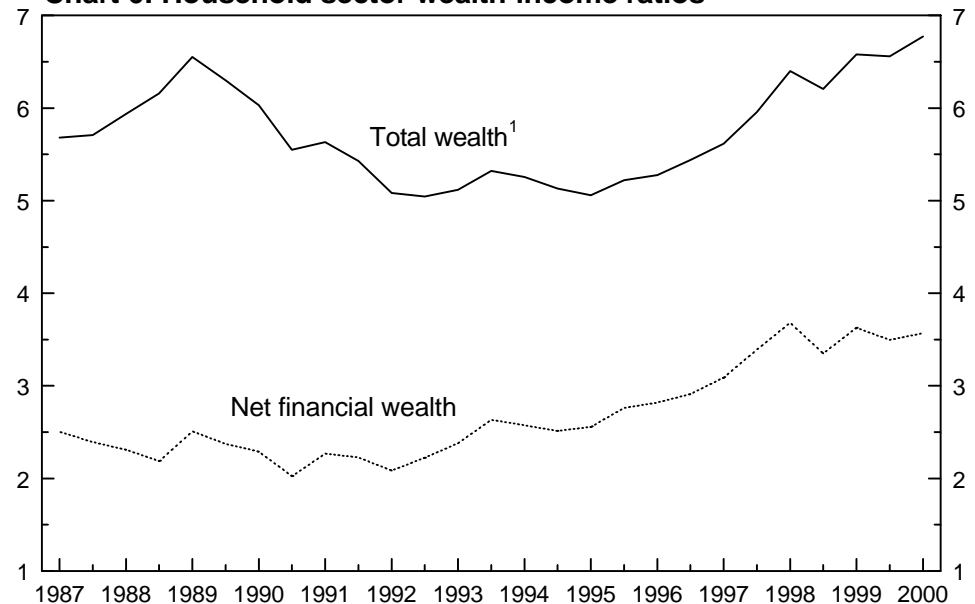
	Percentage points, unless otherwise stated				
	1999	2000	Forecast		
			2001	2002	2003
Final domestic demand	4½	3¼	3 to 3¼	2½ to 3	2¾ to 3
Change in inventories	-¾	½	-¼	-¼ to 0	-¼
Total domestic demand	3¾	3¾	2¾ to 3	2½ to 3	2½ to 3
Net trade	-1½	-¾	-½	-¼	-¼
GDP growth, per cent	2¼	3	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾

¹ At constant market prices.

² Components may not sum to total due to rounding and omission of statistical discrepancy.

The household sector

Chart 6: Household sector wealth-income ratios



¹ Treasury estimates.

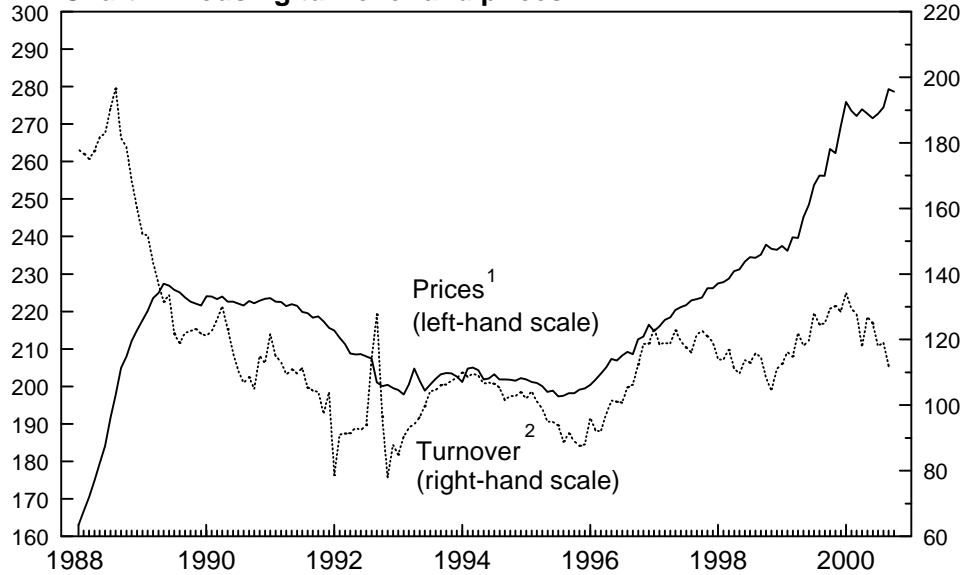
Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year				
	1999	2000	Forecast		
			2001	2002	2003
Household consumption ²	4¼	3½	2¼ to 2½	1¾ to 2¼	2 to 2½
Real household disposable income	3½	4	3 to 3¼	2¾ to 3¼	2¼ to 2¾
Saving ratio (level, per cent)	5¼	4½	4¾	5¾	6

¹ Including non-profit institutions serving households.

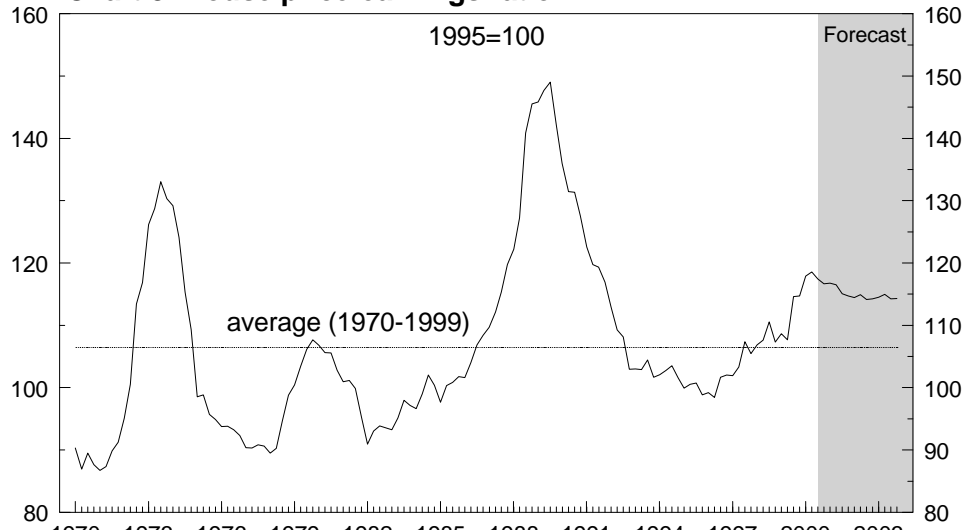
² At constant prices.

Chart 7: Housing turnover and prices



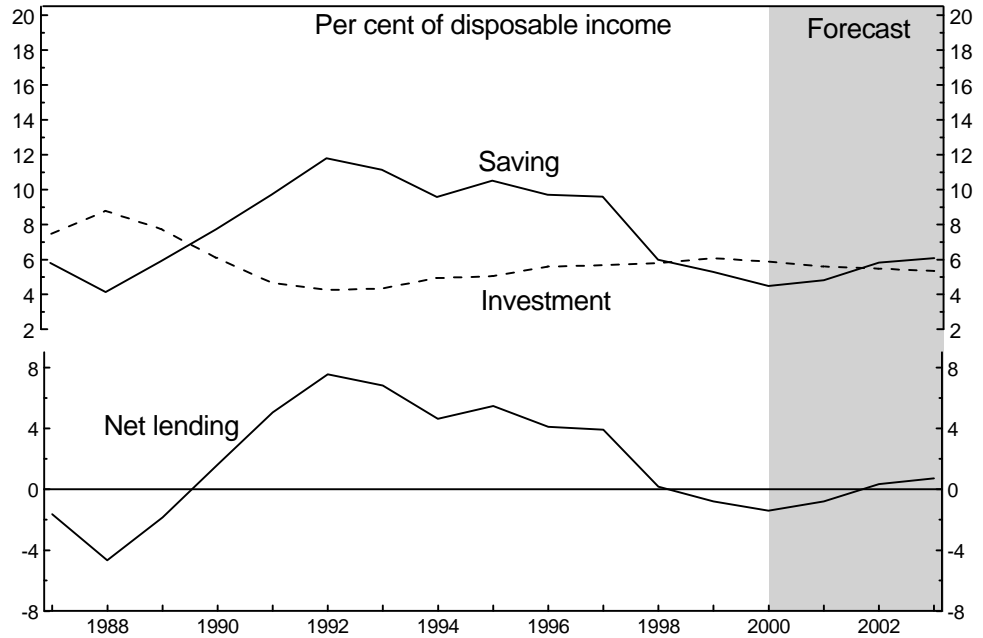
¹ Halifax index, 1983=100.
² Particulars delivered, thousands.

Chart 8: House price-earnings ratio¹



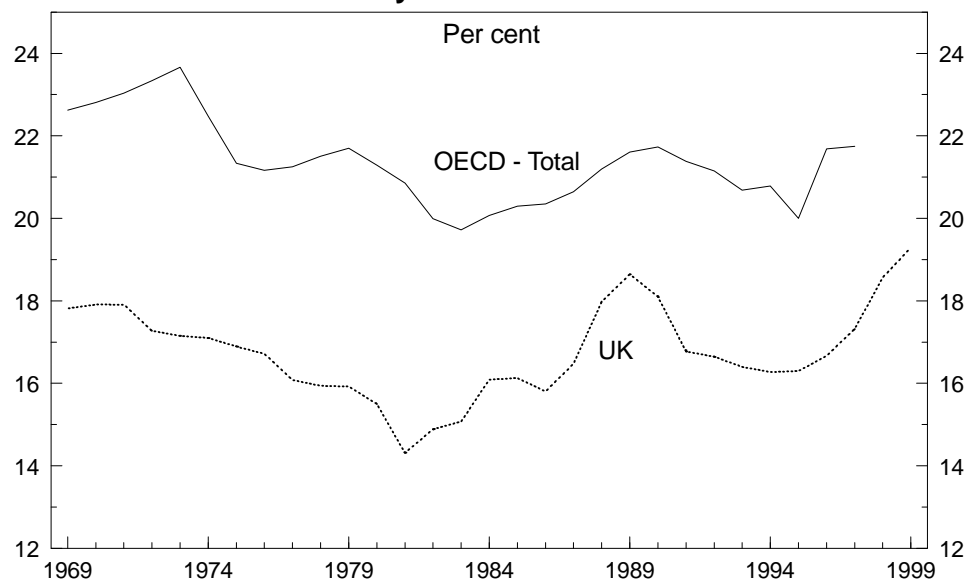
¹ Ratio of house prices to wages and salaries per employee. House prices are measured by the DETR index up to 1998 to obtain a long time-series. Thereafter house prices are measured by the average of DETR, Halifax and Nationwide indices in view of short-term divergences.

Chart 9: Household sector net lending

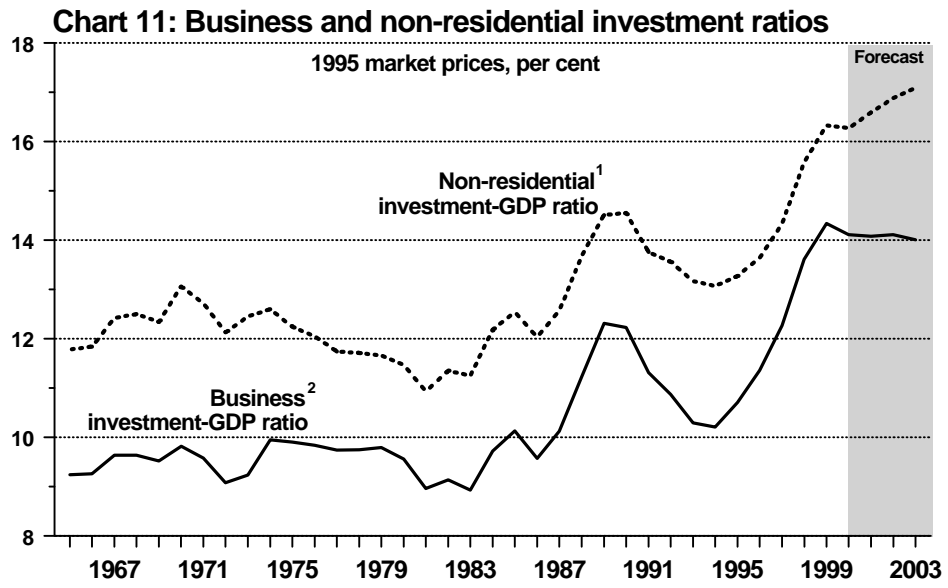


Investment and inventory accumulation

Chart 10: Whole economy investment-GDP ratio¹



¹ UK data at 1995 prices. OECD total at price levels and exchange rates of 1990 (not yet published on 1995 base).



¹ Whole economy less dwellings.

² Business investment includes investment by public corporations (except National Health Service Trusts) and investment under the Private Finance Initiative.

Table 3: Gross fixed capital formation

	Percentage changes on previous year				
	1999	Forecast			
		2000	2001	2002	2003
Whole economy ¹	6	2½	4¼ to 4½	3¾ to 4¼	3¼ to 3¾
of which:					
Business ^{2,3}	7½	1¾	1½ to 2	2¼ to 2¾	2½ to 3
Private dwellings ³	2¾	1	1½ to 1¾	2 to 2½	2 to 2½
General government ^{3,4}	1½	11	31¾	16¼	10½

¹ Includes costs associated with the transfer of ownership of land and existing buildings.

² Private sector and public corporations' (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.

³ Excludes purchases less sales of land and existing buildings.

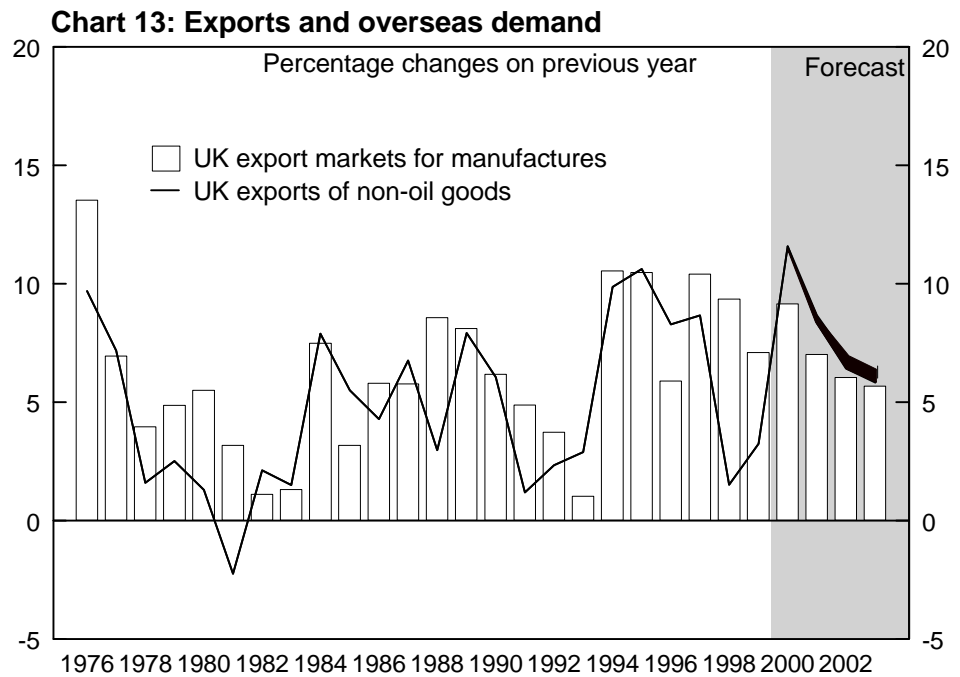
⁴ Includes National Health Service Trusts.

Trade and the balance of payments



¹ Relating to trade in manufactures. A fall means competitiveness has improved.

² IMF index of relative unit labour costs (actual).



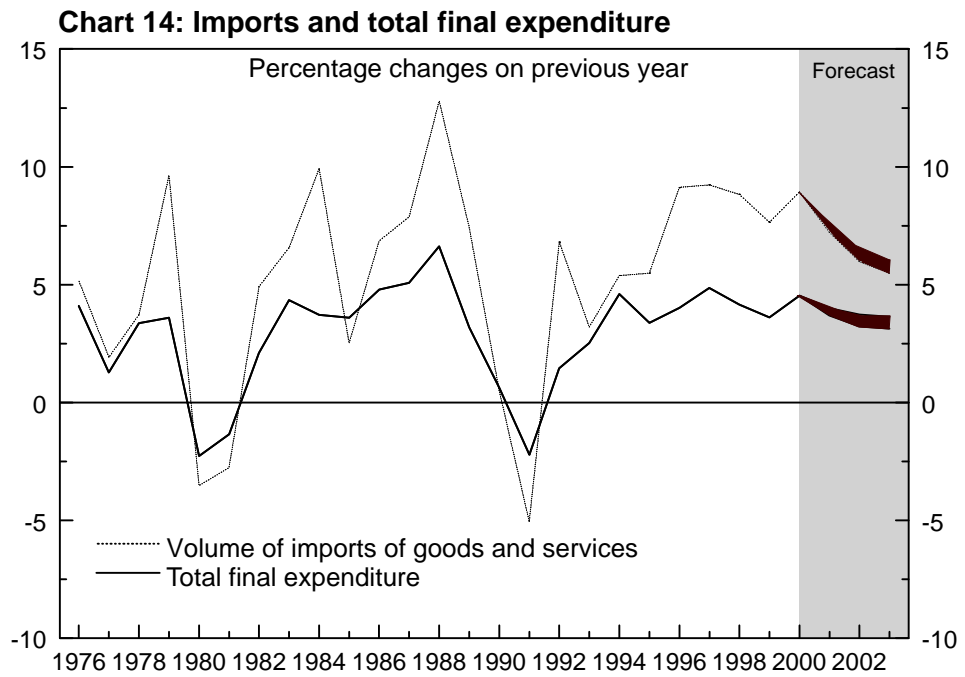
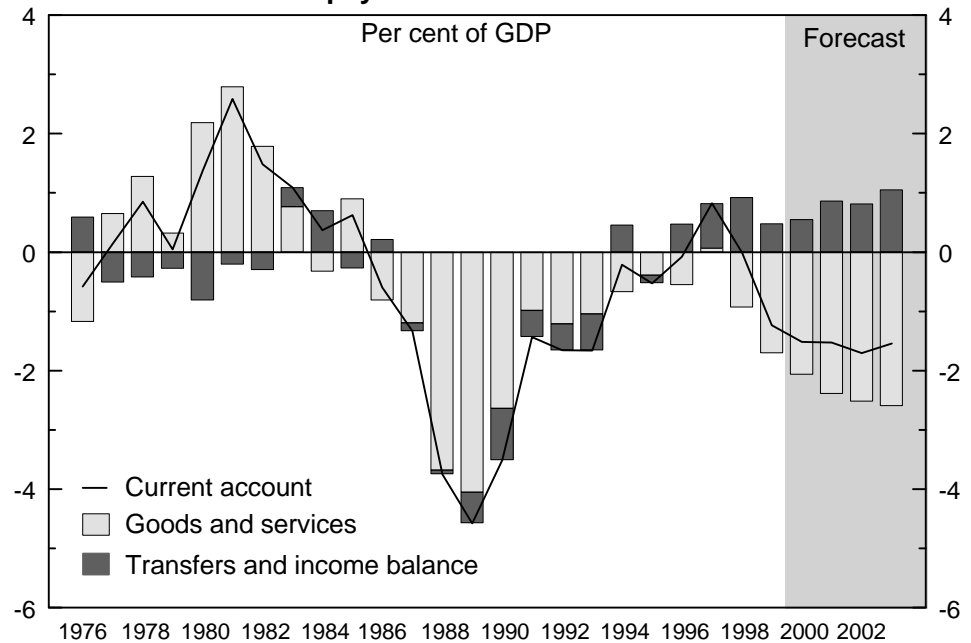


Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
1999	3¼	7¼	1¼	-2½	1¼	-15¼
<i>Forecast</i>						
2000	8	9	2	2	0	-19½
2001	7 to 7½	7¼ to 7½	3	3¼	-½	-23½
2002	6 to 6½	6 to 6½	2¾	3	0	-26
2003	5½ to 6	5½ to 6	2½	2½	0	-28¼

¹ Average value indices.

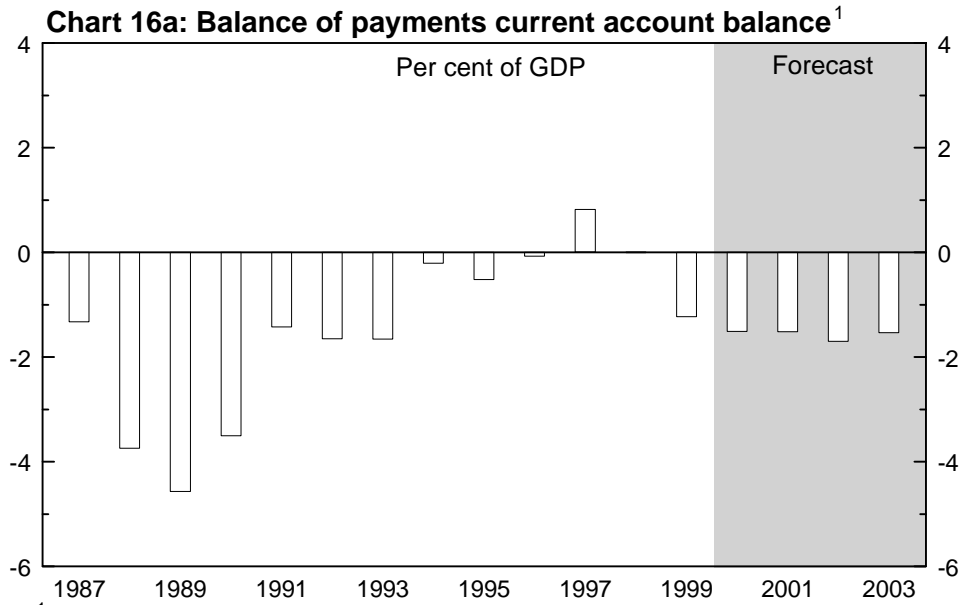
² Ratio of export to import prices.

Chart 15: Balance of payments current account**Table 5: The current account**

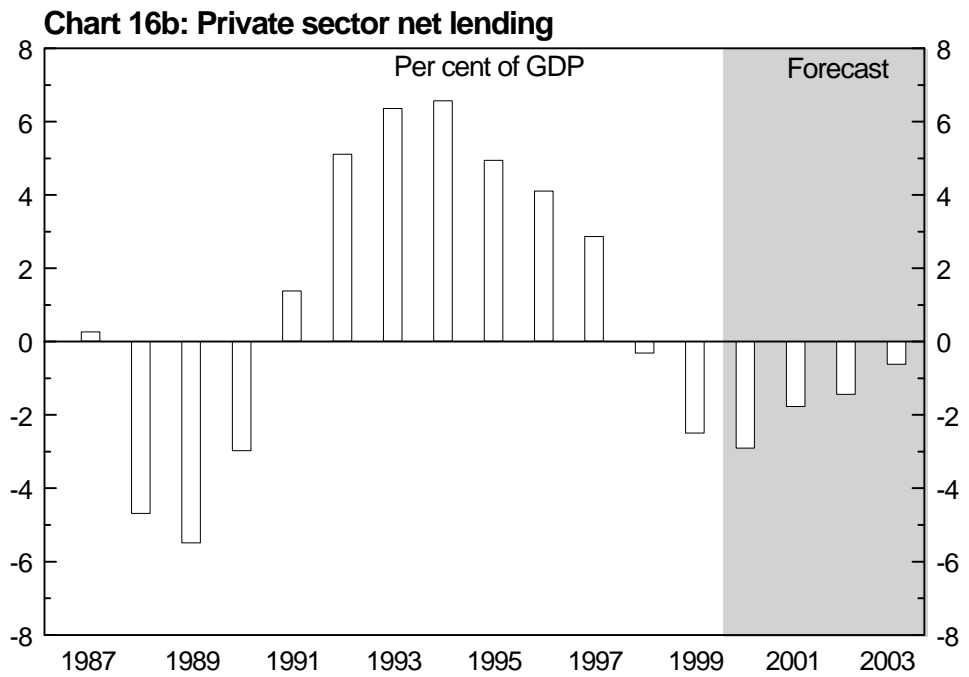
	£ billion					Current balance
	Goods and services		Total	Transfers	Income balance ¹	
	Non-oil	Oil				
1999	-19½	4¼	-15¼	-4	8¼	-11
<i>Forecast</i>						
2000	-25¼	5¾	-19½	-4½	9¾	-14¼
2001	-29½	6	-23½	-4	12½	-15
2002	-32½	6½	-26	-4½	13	-17½
2003	-35¼	7¼	-28¼	-1¾	13¼	-16¾

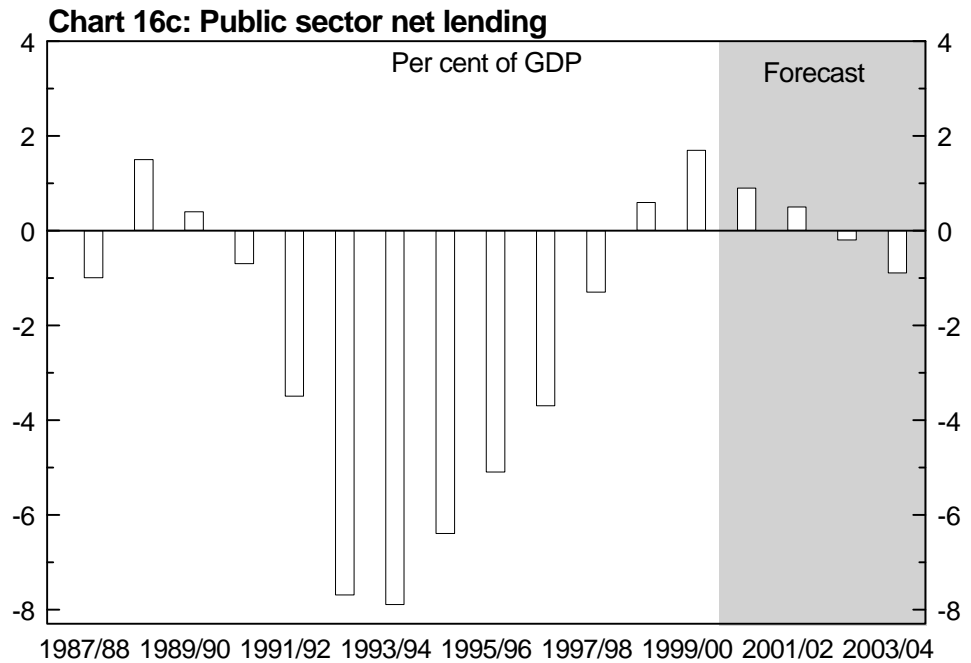
¹Includes investment and employee income.

Pattern of net lending



¹ Net lending to the rest of the world approximately equals the current account balance, but is adjusted for net capital transfers and net acquisitions of non-produced non-financial assets.





The labour market

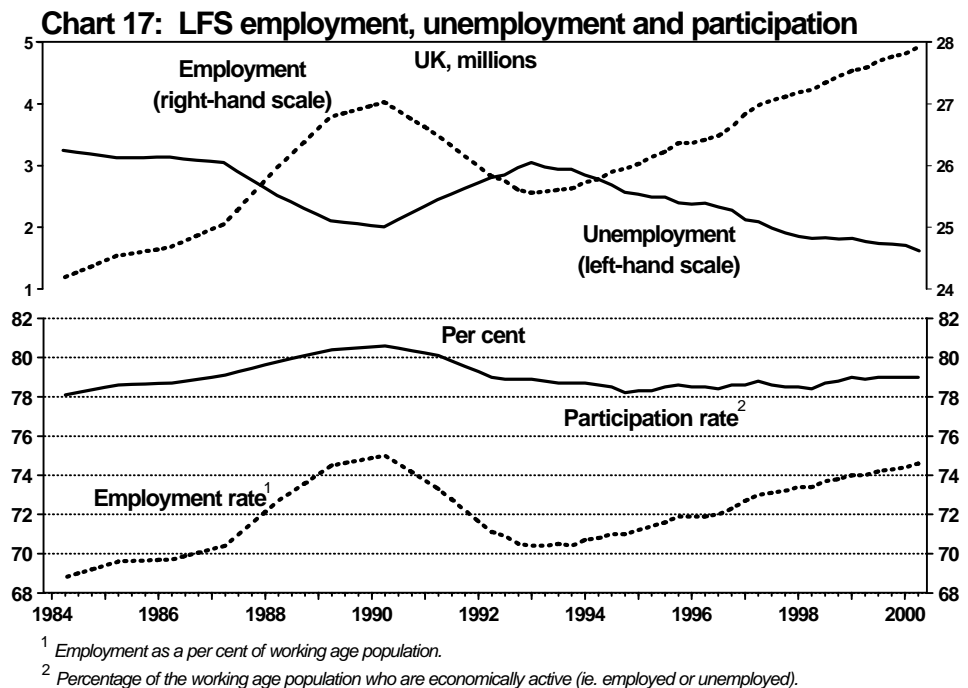
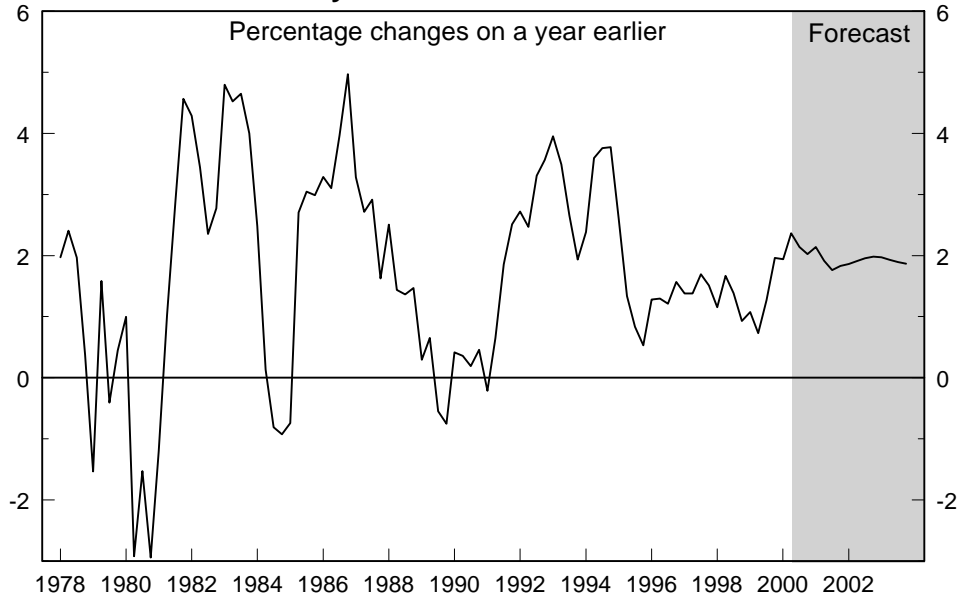
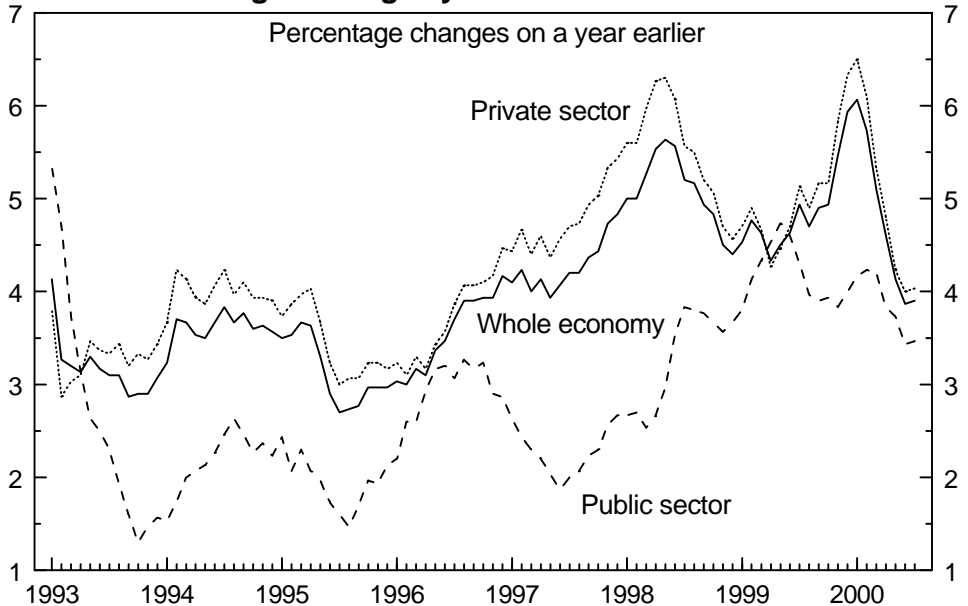


Chart 18: Productivity¹



¹ Estimated non-North Sea oil output per person employed.

Chart 19: Average earnings by sector¹



¹ Seasonally adjusted excluding arrears, centred three-month moving average.

Financial developments

Chart 20: Sterling effective exchange rate index

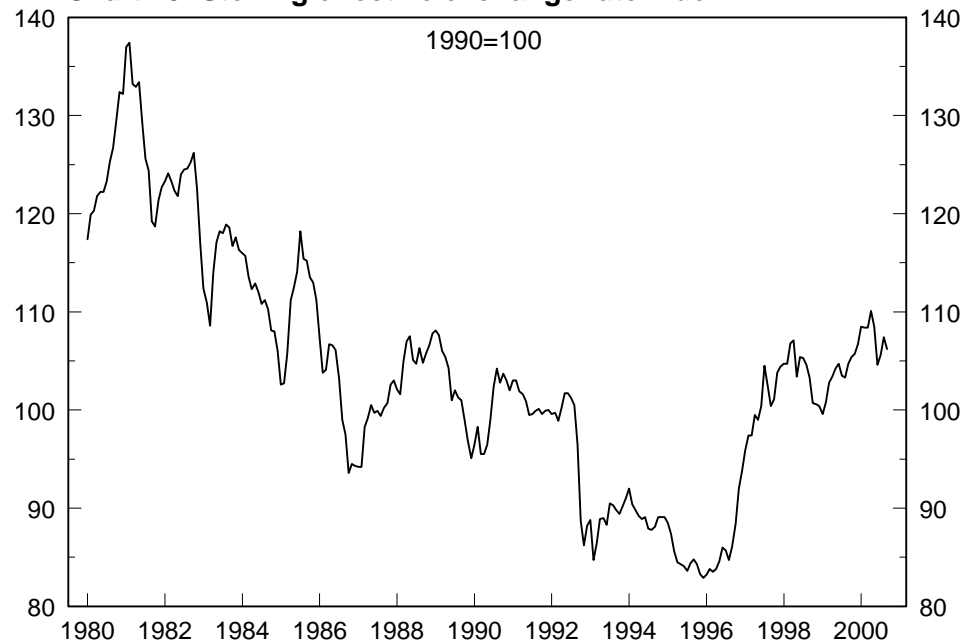


Chart 21: UK interest rates

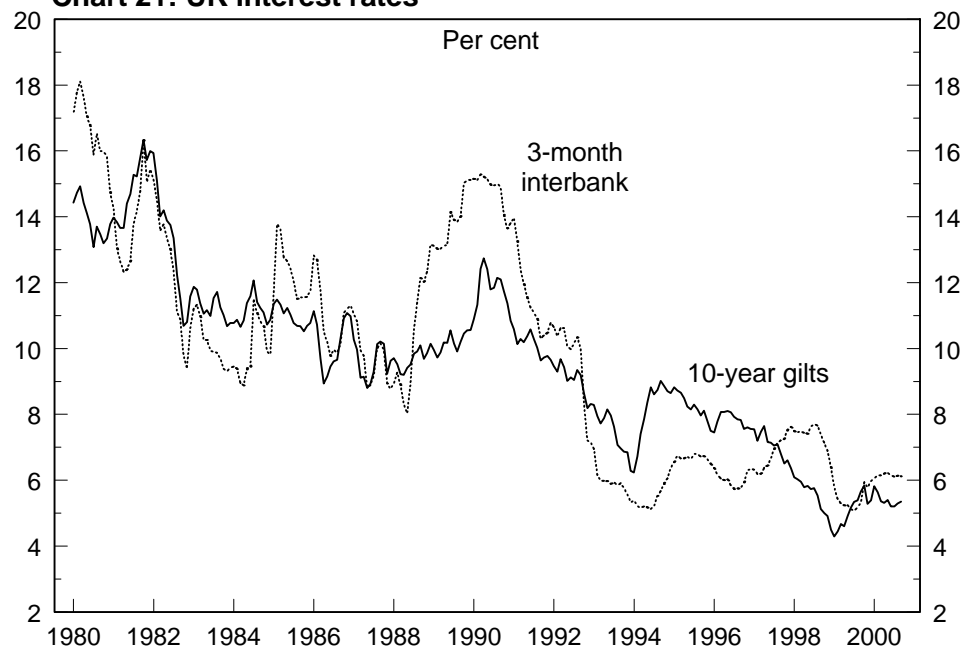
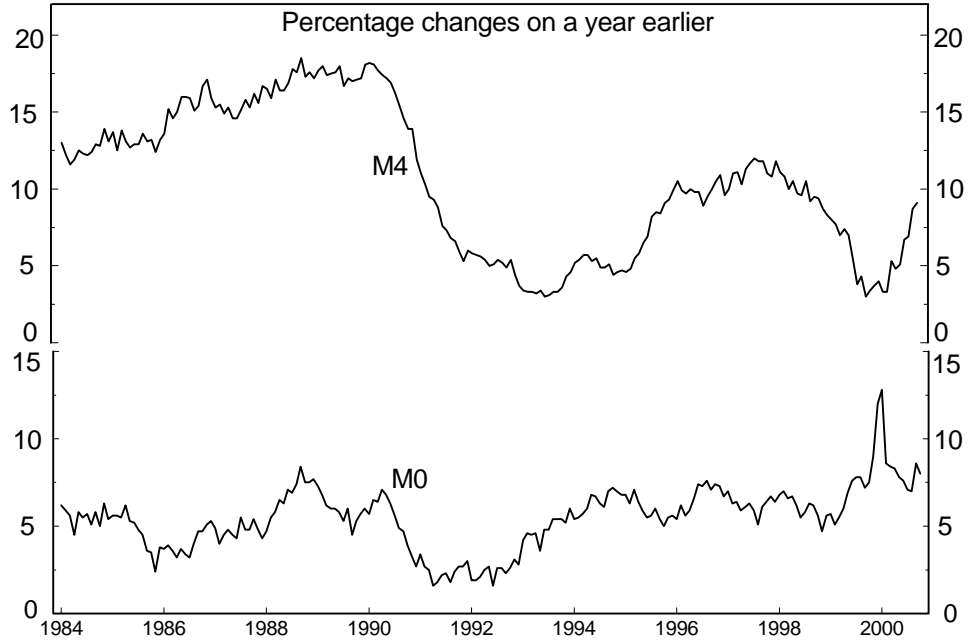
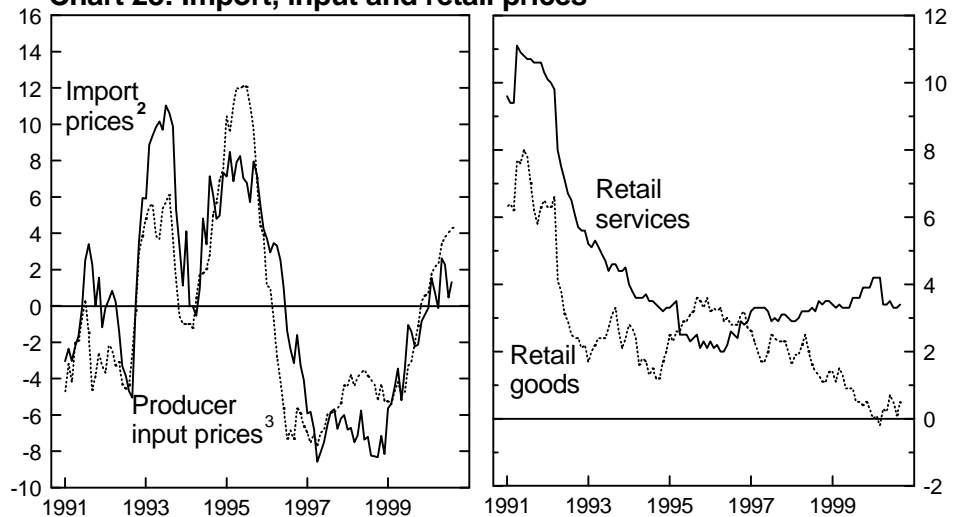


Chart 22: Monetary indicators



Inflation

Chart 23: Import, input and retail prices ¹



¹ Percentage changes on a year earlier.

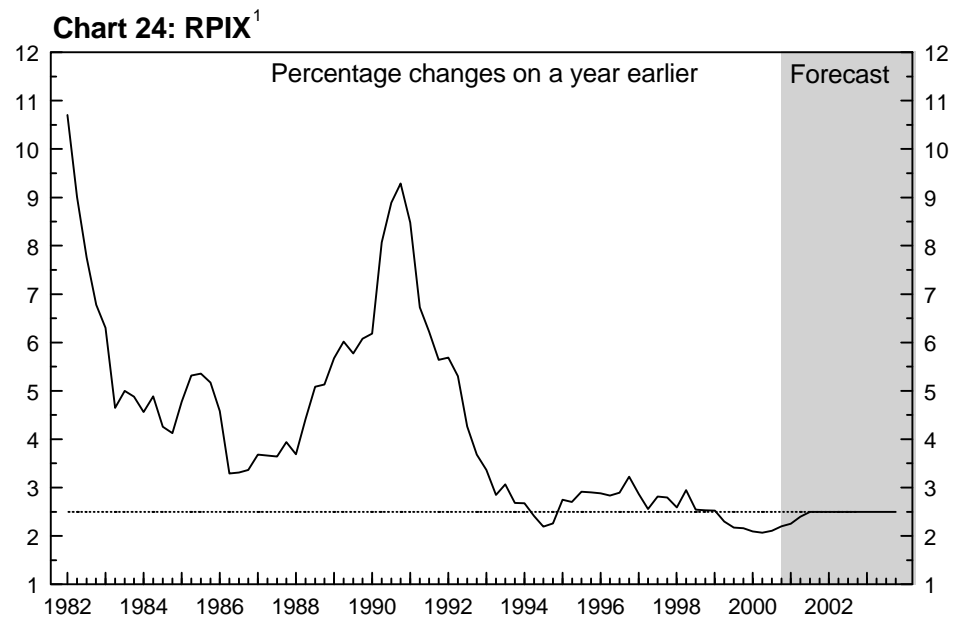
² All goods.

³ Excluding food, beverages, tobacco and petroleum.

Table 6: Retail and producer output prices

	Percentage changes on a year earlier									
	Forecast									
	1999		2000		2001		2002		2003	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2¼	2¼	2	2¼	2½	2½	2½	2½	2½	2½
Producer output prices ¹	-¼	1¼	2	2	2¼	2	2	2	2	2¼

¹Excludes excise duties.



¹Outturns until 2000Q3; forecasts for every second quarter from 2000Q4 to 2003Q4.

Comparison with independent forecasts

Table 7: Pre-Budget Report and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	2000			2001		
	Pre-Budget Report	Independent		Pre-Budget Report	Independent	
		Average	Range		Average	Range
Gross domestic product	3	3.0	2.7 to 3.3	2¼ to 2¾	2.7	1.5 to 3.3
RPIX (Q4)	2¼	2.1	1.5 to 2.4	2½	2.4	1.3 to 3.7
Current account (£ billion)	-14¼	-15.9	-27.5 to -9.0	-15	-18.2	-28.2 to -7.2

¹Forecasts for the UK Economy: A Comparison of Independent Forecasts, October 2000.

Comparison with Budget 2000 forecast

Table 8: Comparison with Budget 2000 forecast

		Percentage changes on a year earlier unless otherwise stated	
		March 2000 Budget	November 2000 Pre-Budget Report
		Gross domestic product	2000
	2001	2¼ to 2¾	2¼ to 2¾
	2002	2¼ to 2¾	2¼ to 2¾
RPI excluding MIPs (Q4)	2000	2¼	2¼
	2001	2½	2½
	2002	2½	2½
Current account (£ billion)	2000	-20½	-14¼
	2001	-21	-15
	2002	19¾	-17½

Table 9: Summary of economic prospects¹

	1999	Forecast ²			2003	Average errors from past forecasts ³
		2000	2001	2002		
Output at constant market prices						
Gross domestic product (GDP)	2½	3	2½ to 2¾	2½ to 2¾	2½ to 2¾	1
Manufacturing output	0	1½	2 to 2¼	1¾ to 2¼	1¾ to 2¼	2
Expenditure components of GDP at constant market prices⁴						
Domestic demand	3¾	3½	2½ to 3	2½ to 2¾	2½ to 2¾	1¼
Household consumption ⁵	4¼	3½	2½ to 2¾	1¾ to 2¼	2 to 2½	1¼
General government consumption	3¾	2¼	4	4	3½	1½
Fixed investment	6	2½	4¼ to 4½	3¾ to 4¼	3¼ to 3¾	2¾
Change in inventories ⁶	-¾	½	-¼	0 to -¼	-¼	¼
Exports of goods and services	3¾	8	7 to 7½	6 to 6½	5½ to 6	2
Imports of goods and services	7¾	9	7 to 7½	6 to 6½	5½ to 6	2
Balance of payments current account						
£ billion	-11	-14¼	-15	-17½	-16¾	6½
per cent of GDP	-1¼	-1½	-1½	-1¾	-1½	¾
Inflation						
RPIX (Q4)	2½	2¼	2½	2½	2½	1
Producer output prices (Q4) ⁷	1¼	2	2	2	2¼	1¼
GDP deflator at market prices (financial year)	2½	2	2½	2½	2½	1
Money GDP at market prices (financial year)						
£ billion	904	950	995 to 999	1042 to 1051	1091 to 1106	12
percentage change	5	5	4¾ to 5¼	4¾ to 5¼	4¾ to 5¼	1¼

¹The forecast is consistent with the national accounts and balance of payments statistics to the second quarter of 2000, released by the Office for National Statistics on 27 September 2000, and the preliminary GDP estimate for the third quarter released on 20 October.

²The size of the growth ranges for GDP components may differ from those for total GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.

³Average absolute errors for year-ahead projections made in autumn forecasts over the past ten years. The average errors for the current account are calculated as a percent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2001.

⁴Further detail on the expenditure components of GDP is given in Table A10.

⁵Includes households and non-profit institutions serving households.

⁶Contribution to GDP growth, percentage points.

⁷Excluding excise duties.

Table 10: Gross domestic product and its components

	£ billion at 1995 prices, seasonally adjusted									
	Household consumption ¹	General government consumption	Fixed investment	Change in inventories	Domestic demand ²	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy ³	GDP at market prices
1999	531.4	147.8	153.3	-1.4	831.5	250.4	1081.9	286.6	-0.6	794.7
2000	550.2	151.0	157.0	2.4	860.6	270.3	1130.9	312.2	-0.4	818.3
2001	562.1 to 563.8	157.0	163.6 to 164.1	0.4 to 0.9	883.2 to 885.9	289.4 to 290.3	1172.6 to 1176.2	334.7 to 335.7	-0.4	837.5 to 840.1
2002	571.5 to 576.1	163.3	169.7 to 171	-0.6 to 0.7	903.9 to 911.1	306.5 to 309	1210.4 to 1220.1	354.7 to 357.5	-0.4	855.4 to 862.2
2003	582.9 to 590.5	169.1	175.4 to 177.6	-2.6 to -0.4	924.8 to 936.8	323.5 to 327.6	1248.3 to 1264.4	374.1 to 379	-0.4	873.8 to 885.1
1999 1st half	263.1	73.9	76.0	-1.2	411.9	121.4	533.3	139.1	-0.3	393.9
2nd half	268.3	74.0	77.3	-0.2	419.6	129.0	548.6	147.5	-0.3	400.8
2000 1st half	273.2	74.3	77.5	1.4	426.3	132.4	558.8	152.4	-0.2	406.1
2nd half	277.1	76.7	79.5	1.0	434.3	137.8	572.1	159.8	-0.2	412.1
2001 1st half	279.9 to 280.4	77.9	81.2 to 81.4	0.1 to 0.2	439.1 to 439.9	142.5 to 142.8	581.7 to 582.7	164.8 to 165.1	-0.2	416.7 to 417.4
2nd half	282.1 to 283.3	79.2	82.4 to 82.8	0.3 to 0.7	444 to 445.9	146.9 to 147.5	590.9 to 593.4	169.9 to 170.6	-0.2	420.8 to 422.6
2002 1st half	284.5 to 286.4	80.8	84 to 84.6	-0.1 to 0.5	449.3 to 452.3	151.1 to 152.1	600.4 to 604.5	174.9 to 176	-0.2	425.3 to 428.2
2nd half	287 to 289.7	82.5	85.6 to 86.4	-0.5 to 0.2	454.6 to 458.8	155.4 to 156.8	610 to 615.6	179.8 to 181.5	-0.2	430 to 434
2003 1st half	289.9 to 293.3	84.1	87.1 to 88.1	-1.3 to -0.4	459.8 to 465.2	159.6 to 161.4	619.4 to 626.6	184.6 to 186.8	-0.2	434.6 to 439.7
2nd half	293 to 297.1	85.0	88.2 to 89.5	-1.2 to -0.1	465 to 471.6	163.9 to 166.2	628.9 to 637.8	189.5 to 192.2	-0.2	439.2 to 445.4
	Percentage changes on previous year ^{3,4}									
1999	4¼	3¼	6	-¾	3¾	3¼	3½	7¼	0	2¼
2000	3½	2¼	2½	½	3½	8	4½	9	0	3
2001	2¼ to 2½	4	4¼ to 4½	-¼	2½ to 3	7 to 7½	3¾ to 4	7¼ to 7½	0	2¼ to 2¾
2002	1¾ to 2¼	4	3¾ to 4¼	-¼ to 0	2¼ to 2¾	6 to 6½	3¾ to 3¾	6 to 6½	0	2¼ to 2¾
2003	2 to 2½	3½	3¼ to 3¾	-¼	2¼ to 2¾	5½ to 6	3¾ to 3¾	5½ to 6	0	2¼ to 2¾

¹Includes households and non-profit institutions serving households.

²Also includes acquisitions less disposals of valuables.

³Expenditure adjustment.

⁴For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

⁵Growth ranges for GDP components do not necessarily sum to the ½ percentage point ranges for GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.